

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>	Printed Name		License Number	

VILLAGE OF PAW PAW

Van Buren County, Michigan

FINANCIAL STATEMENTS

February 29, 2008

VILLAGE OF PAW PAW

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Paw Paw, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Paw Paw as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Paw Paw's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit, and each major fund of the Village of Paw Paw as of February 29, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The schedule of pension plan funding progress and budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Paw Paw's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Berthiaume & Co.

August 15, 2008

BASIC FINANCIAL STATEMENTS

VILLAGE OF PAW PAW

STATEMENT OF NET ASSETS

February 29, 2008

	<i>Primary Government</i>			<i>Component Unit - DDA</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 1,876,432	\$ 1,984,828	\$ 3,861,260	\$ 969,133
Receivables	729,867	482,396	1,212,263	48,601
Internal balances	107,976	(107,976)	-	-
Inventory	-	59,510	59,510	-
Prepaid expenses	4,671	4,783	9,454	-
Capital assets:				
Nondepreciable capital assets	-	258,091	258,091	-
Depreciable capital assets, net	1,415,454	8,650,714	10,066,168	66,300
Total assets	4,134,400	11,332,346	15,466,746	1,084,034
Liabilities:				
Accounts payable and accrued expenses	82,169	315,452	397,621	4,854
Long-term liabilities:				
Due within one year	-	180,000	180,000	-
Due in more than one year	213,186	1,600,648	1,813,834	-
Total liabilities	295,355	2,096,100	2,391,455	4,854
Net assets:				
Invested in capital assets, net of related debt	1,415,454	7,211,465	8,626,919	66,300
Restricted for:				
Streets	-	-	-	-
Unrestricted	2,423,591	2,024,781	4,448,372	1,012,880
Total net assets	\$ 3,839,045	\$ 9,236,246	\$ 13,075,291	\$ 1,079,180

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	\$ 374,146	\$ 35,800	\$ -	\$ -	\$ (338,346)
Public safety	844,555	68,450	8,955	-	(767,150)
Public works	909,217	701,475	289,087	-	81,345
Community and economic development	42,814	63,102	-	-	20,288
Recreation and culture	<u>273,945</u>	<u>21,310</u>	<u>16,735</u>	<u>57,578</u>	<u>(178,322)</u>
Total governmental activities	<u>2,444,677</u>	<u>890,137</u>	<u>314,777</u>	<u>57,578</u>	<u>(1,182,185)</u>
Business-type activities:					
Electric	\$ 3,668,491	\$ 3,928,135	\$ -	\$ -	\$ 259,644
Sewer	935,812	651,546	-	-	(284,266)
Water	<u>750,057</u>	<u>588,682</u>	<u>-</u>	<u>-</u>	<u>(161,375)</u>
Total business-type activities	<u>5,354,360</u>	<u>5,168,363</u>	<u>-</u>	<u>-</u>	<u>(185,997)</u>
Total primary government	<u>\$ 7,799,037</u>	<u>\$ 6,058,500</u>	<u>\$ 314,777</u>	<u>\$ 57,578</u>	<u>\$(1,368,182)</u>
COMPONENT UNIT:					
Downtown development authority	\$ 106,784	\$ 3,000	\$ -	\$ -	\$ (103,784)

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>			
	<i>Governmental</i>	<i>Business-</i>		<i>Component</i>
	<i>Activities</i>	<i>type</i>	<i>Total</i>	<i>Unit - DDA</i>
	<i>Activities</i>	<i>Activities</i>	<i>Total</i>	<i>Unit - DDA</i>
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (1,182,185)	\$ (185,997)	\$ (1,368,182)	\$ (103,784)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	835,679	-	835,679	-
Property taxes, levied for streets	336,858	-	336,858	-
Property taxes, captured by DDA	-	-	-	319,880
Payment in lieu of property taxes	161,515	-	161,515	-
Franchise fees	28,235	-	28,235	-
Grants and contributions not restricted to specific programs	338,742	-	338,742	-
Unrestricted investment earnings	71,472	93,648	165,120	24,881
Special item - Gain on sale of capital asset	17,707	-	17,707	-
Total general revenues and special item	<u>1,790,208</u>	<u>93,648</u>	<u>1,883,856</u>	<u>344,761</u>
Change in net assets	608,023	(92,349)	515,674	240,977
Net assets, beginning of year	<u>3,231,022</u>	<u>9,328,595</u>	<u>12,559,617</u>	<u>838,203</u>
Net assets, end of year	<u>\$ 3,839,045</u>	<u>\$ 9,236,246</u>	<u>\$ 13,075,291</u>	<u>\$ 1,079,180</u>

VILLAGE OF PAW PAW

GOVERNMENTAL FUNDS

BALANCE SHEET

February 29, 2008

	<u>Major Governmental Funds</u>			
	<u>General</u>	<u>Revolving</u>	<u>Nonmajor</u>	<u>Total</u>
	<u>Fund</u>	<u>Loan</u>	<u>Governmental</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Assets:				
Cash and cash equivalents	\$ 944,491	\$ 286,976	\$ 580,794	\$ 1,812,261
Taxes receivable	53,721	-	21,487	75,208
Accounts receivable	6,150	-	-	6,150
Notes receivable	-	563,033	-	563,033
Due from other governmental units	44,472	-	41,004	85,476
Due from other funds	61,613	-	1,121	62,734
Prepaid expenditures	4,671	-	-	4,671
Advance receivable from other fund	111,025	-	-	111,025
	<u>\$ 1,226,143</u>	<u>\$ 850,009</u>	<u>\$ 644,406</u>	<u>\$ 2,720,558</u>
Total assets				
	<u>\$ 1,226,143</u>	<u>\$ 850,009</u>	<u>\$ 644,406</u>	<u>\$ 2,720,558</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 45,021	\$ 16	\$ 1,238	\$ 46,275
Accrued expenses	16,553	296	1,518	18,367
Due to other governmental units	188	-	38	226
Due to component unit	395	-	-	395
Due to other funds	60,409	-	32,575	92,984
Deferred revenue	-	563,033	-	563,033
	<u>122,566</u>	<u>563,345</u>	<u>35,369</u>	<u>721,280</u>
Total liabilities				
	<u>122,566</u>	<u>563,345</u>	<u>35,369</u>	<u>721,280</u>
Fund balances:				
Reserved for:				
Prepaid expenditures	4,671	-	-	4,671
Long-term advance	111,025	-	-	111,025
Risk pool deposit	75,362	-	-	75,362
Unreserved:				
General fund	912,519	-	-	912,519
Special revenue funds	-	286,664	609,037	895,701
	<u>1,103,577</u>	<u>286,664</u>	<u>609,037</u>	<u>1,999,278</u>
Total fund balances				
	<u>1,103,577</u>	<u>286,664</u>	<u>609,037</u>	<u>1,999,278</u>
Total liabilities and fund balances	<u>\$ 1,226,143</u>	<u>\$ 850,009</u>	<u>\$ 644,406</u>	<u>\$ 2,720,558</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 29, 2008

Total fund balances for governmental funds \$ 1,999,278

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	1,789,990	
Less accumulated depreciation	<u>(733,459)</u>	1,056,531

Deferred revenues reported in the governmental funds are recognized as
either revenues for amounts received or expenditures for amounts disbursed
the governmental activities.

Loans	563,033
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Long-term liabilities are not due and payable in the current year and
therefore are not reported in the governmental funds:

Compensated absences payable	(194,413)
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The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets.

Net assets of governmental activities	<u><u>\$ 3,839,045</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	<u>Major Governmental Funds</u>			<u>Total</u>
	<u>General</u>	<u>Revolving</u>	<u>Nonmajor</u>	<u>Total</u>
	<u>Fund</u>	<u>Loan</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Revenues:				
Property taxes	\$ 968,976	\$ -	\$ 365,076	\$ 1,334,052
Licenses and permits	69,921	-	-	69,921
State grants	347,697	-	238,433	586,130
Contributions from other units	14,000	-	50,654	64,654
Charges for services	724,174	-	15,850	740,024
Fines and forfeits	26,764	-	-	26,764
Interest and rents	47,743	17,698	25,591	91,032
Other revenue	82,383	86,646	16,735	185,764
Total revenues	<u>2,281,658</u>	<u>104,344</u>	<u>712,339</u>	<u>3,098,341</u>
Expenditures:				
Current				
General government	245,217	-	-	245,217
Public safety	822,140	-	-	822,140
Public works	550,296	-	377,060	927,356
Community and economic development	47,457	301,360	-	348,817
Recreation and culture	216,258	-	44,655	260,913
Other	113,647	-	-	113,647
Capital outlay	30,874	-	-	30,874
Loan payment to General Fund		-		
Principal	-	-	18,736	18,736
Interest and fees	-	-	138	138
Total expenditures	<u>2,025,889</u>	<u>301,360</u>	<u>440,589</u>	<u>2,767,838</u>
Excess (deficiency) of revenues over expenditures	<u>255,769</u>	<u>(197,016)</u>	<u>271,750</u>	<u>330,503</u>
Other financing sources (uses):				
Transfers from other funds	-	-	6,500	6,500
Transfers to other funds	<u>(6,500)</u>	<u>-</u>	<u>-</u>	<u>(6,500)</u>
Total other financing sources (uses)	<u>(6,500)</u>	<u>-</u>	<u>6,500</u>	<u>-</u>
Net change in fund balances	249,269	(197,016)	278,250	330,503
Fund balances, beginning of year	<u>854,308</u>	<u>483,680</u>	<u>330,787</u>	<u>1,668,775</u>
Fund balances, end of year	<u>\$ 1,103,577</u>	<u>\$ 286,664</u>	<u>\$ 609,037</u>	<u>\$ 1,999,278</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended February 29, 2008

Net change in fund balances - total governmental funds \$ 330,503

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	19,324	
Less depreciation expense	<u>(61,853)</u>	(42,529)

Collection and disbursement of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as either revenue or expenditures.

Loans given	286,003	
Loan payments received	<u>(23,769)</u>	262,234

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(12,187)
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The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>70,002</u>
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Change in net assets of governmental activities \$ 608,023

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

February 29, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 1,297,085	\$ 583,477	\$ 104,266	\$ 1,984,828	\$ 64,171
Accounts receivable	364,014	64,336	54,046	482,396	-
Due from other funds	41,747	16,045	-	57,792	41,644
Inventory	55,540	-	3,970	59,510	-
Prepaid expenses	3,059	862	862	4,783	-
Total current assets	<u>1,761,445</u>	<u>664,720</u>	<u>163,144</u>	<u>2,589,309</u>	<u>105,815</u>
Noncurrent assets:					
Capital assets:					
Nondepreciable capital assets	30,118	227,123	850	258,091	-
Depreciable capital assets, net	1,277,095	4,338,559	3,035,060	8,650,714	358,923
Advance receivable from other funds	897,525	-	-	897,525	-
Total noncurrent assets	<u>2,204,738</u>	<u>4,565,682</u>	<u>3,035,910</u>	<u>9,806,330</u>	<u>358,923</u>
Total assets	<u>3,966,183</u>	<u>5,230,402</u>	<u>3,199,054</u>	<u>12,395,639</u>	<u>464,738</u>
Liabilities:					
Current liabilities:					
Accounts payable	182,195	21,990	9,186	213,371	14,212
Accrued expenses	4,341	3,363	2,868	10,572	1,910
Due to component unit	-	-	-	-	784
Due to other funds	19,990	2,424	32,329	54,743	14,443
Deposits payable	54,030	6,020	5,660	65,710	-
Accrued interest payable	-	12,499	13,300	25,799	-
Current portion of long-term debt	-	35,000	145,000	180,000	-
Total current liabilities	<u>260,556</u>	<u>81,296</u>	<u>208,343</u>	<u>550,195</u>	<u>31,349</u>
Noncurrent liabilities:					
Advance payable to other funds	-	523,779	484,771	1,008,550	-
Compensated absences payable	48,703	21,945	12,660	83,308	18,773
Long-term debt	-	570,000	947,340	1,517,340	-
Total noncurrent liabilities	<u>48,703</u>	<u>1,115,724</u>	<u>1,444,771</u>	<u>2,609,198</u>	<u>18,773</u>
Total liabilities	<u>309,259</u>	<u>1,197,020</u>	<u>1,653,114</u>	<u>3,159,393</u>	<u>50,122</u>
Net assets:					
Invested in capital assets, net of related debt	1,307,213	3,960,682	1,943,570	7,211,465	358,923
Unrestricted	<u>2,349,711</u>	<u>72,700</u>	<u>(397,630)</u>	<u>2,024,781</u>	<u>55,693</u>
Total net assets	<u>\$ 3,656,924</u>	<u>\$ 4,033,382</u>	<u>\$ 1,545,940</u>	<u>\$ 9,236,246</u>	<u>\$ 414,616</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 29, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Operating revenues:					
Charges for services	\$ 3,861,764	\$ 616,722	\$ 511,845	\$ 4,990,331	\$ -
Penalties	20,872	2,888	3,054	26,814	-
Hydrant rental	-	-	54,600	54,600	-
Equipment rental	-	-	-	-	449,210
Other	45,499	31,936	19,183	96,618	113
Total operating revenues	<u>3,928,135</u>	<u>651,546</u>	<u>588,682</u>	<u>5,168,363</u>	<u>449,323</u>
Operating expenses:					
Personnel	314,244	150,572	147,176	611,992	89,368
Fringe benefits	114,306	44,809	55,131	214,246	57,147
Supplies	54,469	19,666	28,156	102,291	71,184
Property tax equivalents	145,000	-	-	145,000	-
Contracted services	15,335	33,433	18,474	67,242	29,089
Purchase of power	2,670,340	-	-	2,670,340	-
Administrative expense	125,000	241,570	281,250	647,820	43,700
Telephone	203	545	419	1,167	416
Dues and memberships	10,824	201	1,212	12,237	-
Education and training	2,470	649	1,096	4,215	-
Utilities	-	70,290	16,552	86,842	3,136
Repairs and maintenance	7,269	75,583	6,037	88,889	32,937
Equipment rental	113,464	33,273	47,787	194,524	-
Other services and supplies	1,665	6,532	9,725	17,922	10,639
Depreciation	93,902	211,757	95,939	401,598	61,052
Total operating expenses	<u>3,668,491</u>	<u>888,880</u>	<u>708,954</u>	<u>5,266,325</u>	<u>398,668</u>
Operating income (loss)	<u>259,644</u>	<u>(237,334)</u>	<u>(120,272)</u>	<u>(97,962)</u>	<u>50,655</u>
Non-operating revenues (expenses):					
Interest income	62,029	28,406	3,213	93,648	1,640
Gain on sale of capital assets	-	-	-	-	17,707
Interest expense	-	(46,932)	(41,103)	(88,035)	-
Total non-operating revenues (expenses)	<u>62,029</u>	<u>(18,526)</u>	<u>(37,890)</u>	<u>5,613</u>	<u>19,347</u>
Net income (loss)	321,673	(255,860)	(158,162)	(92,349)	70,002
Net assets, beginning of year	<u>3,335,251</u>	<u>4,289,242</u>	<u>1,704,102</u>	<u>9,328,595</u>	<u>344,614</u>
Net assets, end of year	<u>\$ 3,656,924</u>	<u>\$ 4,033,382</u>	<u>\$ 1,545,940</u>	<u>\$ 9,236,246</u>	<u>\$ 414,616</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended February 29, 2008

	<i>Business-type Activities</i>				<i>Governmental Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Cash flows from operating activities:					
Cash received from customers	\$ 4,092,997	\$ 689,395	\$ 552,559	\$ 5,334,951	\$ 113
Cash received (payments) from interfund services	13,772	(11,965)	125,845	127,652	361,783
Cash payments to employees	(302,975)	(145,173)	(144,811)	(592,959)	(87,683)
Cash payments to suppliers for goods and services	<u>(3,294,944)</u>	<u>(515,085)</u>	<u>(493,569)</u>	<u>(4,303,598)</u>	<u>(238,130)</u>
Net cash provided (used) by operating activities	<u>508,850</u>	<u>17,172</u>	<u>40,024</u>	<u>566,046</u>	<u>36,083</u>
Cash flows from non-capital financing activities:					
Advance (to) from other funds	(159,962)	-	159,962	-	-
Principal collected (paid) on long-term advance receivable	<u>67,141</u>	<u>(67,141)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by non-capital financing activities	<u>(92,821)</u>	<u>(67,141)</u>	<u>159,962</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:					
Acquisitions of capital assets	(11,891)	(10,849)	(10,849)	(33,589)	(26,640)
Gain on sale of capital assets	-	-	-	-	17,707
Principal payments on capital debt	-	(30,000)	(150,000)	(180,000)	-
Interest paid on capital debt	<u>-</u>	<u>(46,932)</u>	<u>(41,103)</u>	<u>(88,035)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(11,891)</u>	<u>(87,781)</u>	<u>(201,952)</u>	<u>(301,624)</u>	<u>(8,933)</u>
Cash flows from investing activities:					
Interest received	<u>62,029</u>	<u>28,406</u>	<u>3,213</u>	<u>93,648</u>	<u>1,640</u>
Net cash provided by investing activities	<u>62,029</u>	<u>28,406</u>	<u>3,213</u>	<u>93,648</u>	<u>1,640</u>
Net increase (decrease) in cash and cash equivalents	466,167	(109,344)	1,247	358,070	28,790
Cash and cash equivalents, beginning of year	<u>830,918</u>	<u>692,821</u>	<u>103,019</u>	<u>1,626,758</u>	<u>35,381</u>
Cash and cash equivalents, end of year	<u>\$ 1,297,085</u>	<u>\$ 583,477</u>	<u>\$ 104,266</u>	<u>\$ 1,984,828</u>	<u>\$ 64,171</u>

continued

VILLAGE OF PAW PAW

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended February 29, 2008

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	<i>Business-type Activities</i>				<i>Activities</i>
	<i>Electric Fund</i>	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	<i>Motor Pool Fund</i>
Operating income (loss)	\$ 259,644	\$ (237,334)	\$ (120,272)	\$ (97,962)	\$ 50,655
Adjustments:					
Depreciation	93,902	211,757	95,939	401,598	61,052
Change in assets and liabilities:					
Accounts receivable	162,422	37,524	18,182	218,128	38,074
Due from other funds	(6,218)	24,113	38,916	56,811	(38,588)
Inventory	(1,679)	-	628	(1,051)	-
Accounts payable	(23,626)	16,575	(22,142)	(29,193)	12,598
Accrued expenses	(6,235)	(3,691)	(3,011)	(12,937)	(2,956)
Due to component unit	-	-	-	-	476
Due to other funds	19,990	(36,078)	32,329	16,241	(86,913)
Deposits payable	2,440	325	295	3,060	-
Accrued interest payable	-	(556)	(2,343)	(2,899)	-
Compensated absences payable	11,269	5,399	2,365	19,033	1,685
Net cash provided (used) by operating activities	<u>\$ 508,850</u>	<u>\$ 17,172</u>	<u>\$ 40,024</u>	<u>\$ 566,046</u>	<u>\$ 36,083</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Paw Paw conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component unit. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the Village's reporting entity because of its operational or financial relationship with the Village.

Discretely Presented Component Unit - The component unit column in the government-wide financial statements includes the financial data of the Village's one component unit. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The component unit is described as follows:

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent the deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The DDA's governing body, which consists of thirteen members, is selected by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority.

Joint Venture – The Village is a member of the Paw Paw Fire Department which provides fire protection to the residents of the Village and four surrounding Townships. The Village no longer provides funding for the Fire Department's operation since the Township of Paw Paw receives a millage for the operation of the Fire Department and contributes the Village's portion. The Village retains 1/5 ownership rights in the capital assets acquired and reported by the Fire Department. Complete financial statements for the Fire Department can be obtained from administrative offices at 111 East Michigan Avenue, Paw Paw, Michigan.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component unit. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village’s net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Revolving Loan Fund** accounts for monies designated to make loans to local businesses.

The Village reports the following major proprietary funds:

The **Electric Enterprise Fund** is used to account for the operations of the Village's electric department that provides electric services to most residents of the Village on a user charge basis.

The **Sewer Enterprise Fund** is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

The **Water Enterprise Fund** is used to account for the operations of the Village's water department that provides water services to most residents of the Village on a user charge basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents. Investments, if any, are stated at fair value.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Receivables – All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances, if any, are immaterial at year end.

Inventories – Inventories are valued at cost on a first-in first-out basis.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000 and an estimated useful life in excess of two years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) of the governmental funds are capitalized if acquired since March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Furniture and equipment	5-10 years
Machinery and equipment	5-25 years
Public domain infrastructure	25 years
Site improvements	20 years
System infrastructure	5-50 years
Vehicles	5-8 years

Compensated Absences – Individual employees have a vested right to receive payments for unused sick and vacation benefits under formulas and conditions specified in Village policies. Accumulated sick and vacation benefits of governmental funds are recorded on the statement of net assets and not on the governmental fund balance sheets because they are not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds have been reported in the statement of net assets of the individual enterprise funds.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as other expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on or before September 14 with the final collection date of February 28 before they are added to the County tax rolls. The 2007 valuation of the Village totaled \$85,608,527, which taxes were levied at 11.3252 mills for the Village’s operating purposes and 4.5299 mills for streets.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis of accounting which is used to reflect actual results. Governmental funds are under formal budgetary control. Budgetary control is exercised at the department level. Unexpended appropriations lapse at year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

State Construction Code Act:

The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at March 1, 2007	\$ -
Current year building permit revenue	33,711
Related expenses:	
Direct costs	(47,180)
Cumulative surplus at February 29, 2008	\$ -

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 29, 2008

NOTE 3: CASH AND CASH EQUIVALENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village does not have a deposit policy for custodial credit risk. At year-end, the Village had \$4,705,607 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	<i>March 1, 2007</i>	<i>Additions</i>	<i>Retirements</i>	<i>February 29, 2008</i>
Governmental activities:				
Depreciable capital assets				
Buildings and improvements	\$ 1,141,445	\$ -	\$ -	\$ 1,141,445
Furniture and equipment	79,975	3,000	-	82,975
Infrastructure	276,789	-	-	276,789
Machinery and equipment	322,793	16,324	-	339,117
Site improvements	408,607	-	-	408,607
Vehicles	873,761	26,640	(83,521)	816,880
Total depreciable capital assets	3,103,370	45,964	(83,521)	3,065,813
Accumulated depreciation	(1,610,975)	(122,905)	83,521	(1,650,359)
Depreciable capital assets, net	1,492,395	(76,941)	-	1,415,454
Governmental activities, capital assets, net	\$ 1,492,395	\$ (76,941)	\$ -	\$ 1,415,454

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

	<i><u>March 1, 2007</u></i>	<i><u>Additions</u></i>	<i><u>Retirements</u></i>	<i><u>February 29, 2008</u></i>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 258,091	\$ -	\$ -	\$ 258,091
Depreciable capital assets				
Buildings and improvements	1,216,803	-	-	1,216,803
Furniture and equipment	151,166	-	-	151,166
Machinery and equipment	1,583,347	4,785	-	1,588,132
Utility system				
Electric system	2,805,746	7,106	-	2,812,852
Sewer system	7,034,202	10,849	-	7,045,051
Water system	4,370,792	10,849	-	4,381,641
Total depreciable capital assets	17,162,056	33,589	-	17,195,645
Accumulated depreciation	(8,143,333)	(401,598)	-	(8,544,931)
Depreciable capital assets, net	9,018,723	(368,009)	-	8,650,714
Business-type activities, capital assets, net	<u>\$ 9,276,814</u>	<u>\$ (368,009)</u>	<u>\$ -</u>	<u>\$ 8,908,805</u>
Component unit - DDA:				
Depreciable capital assets				
Buildings	\$ 2,900	\$ -	\$ -	\$ 2,900
Equipment	-	12,568	-	12,568
Infrastructure	55,734	-	-	55,734
Total depreciable capital assets	58,634	12,568	-	71,202
Accumulated depreciation	(2,266)	(2,636)	-	(4,902)
Component unit - DDA, capital assets, net	<u>\$ 56,368</u>	<u>\$ 9,932</u>	<u>\$ -</u>	<u>\$ 66,300</u>

Depreciation expense was charged to functions as follows:

	<i><u>Governmental Activities</u></i>	<i><u>Business-type Activities</u></i>	<i><u>Component Unit</u></i>
General government	\$ 2,454	\$ -	\$ -
Public safety	11,916	-	-
Public works	97,724	-	-
Recreation and culture	10,811	-	-
Electric	-	93,902	-
Sewer	-	211,757	-
Water	-	95,939	-
Downtown development authority	-	-	2,636
Total depreciation	<u>\$ 122,905</u>	<u>\$ 401,598</u>	<u>\$ 2,636</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 29, 2008 is as follows:

		<u>Receivable</u>	<u>Payable</u>
General Fund	Wine and Harvest Fund	\$ 17,009	\$ (17,009)
General Fund	Water Fund	30,161	(30,161)
General Fund	Motor Pool Fund	14,443	(14,443)
Major Street Fund	Local Street Fund	1,021	(1,021)
Wine and Harvest Fund	Electric Fund	100	(100)
Electric Fund	General Fund	41,747	(41,747)
Sewer Fund	Electric Fund	16,045	(16,045)
Motor Pool Fund	General Fund	18,662	(18,662)
Motor Pool Fund	Major Street Fund	5,343	(5,343)
Motor Pool Fund	Local Street Fund	9,202	(9,202)
Motor Pool Fund	Electric Fund	3,845	(3,845)
Motor Pool Fund	Sewer Fund	2,424	(2,424)
Motor Pool Fund	Water Fund	2,168	(2,168)
		<u>\$ 162,170</u>	<u>\$ (162,170)</u>

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Wine and Harvest Festival Fund	\$ 6,500

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6: ADVANCES TO/FROM OTHER FUNDS

Advances between funds bear interest at a rate of three percent, payable monthly, with principal due on demand. The composition of inter-fund advances receivable and payable at February 29, 2008 is as follows:

<u>Advances receivable</u>	<u>Advances payable</u>	
General Fund	Water Fund	\$ 111,025
Electric Fund	Sewer Fund	523,779
Electric Fund	Water Fund	<u>373,746</u>
		<u>\$ 1,008,550</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 7: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At year end, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Notes/Loans	\$ 563,033	\$ -

NOTE 8: LONG-TERM LIABILITIES

The Village may issue bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Other long-term liabilities include compensated absences.

The following is a summary of debt transactions of the Village for the year ended February 29, 2008:

<u>Types of Indebtedness</u>	<u>March 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>February 29, 2008</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Compensated absences payable	\$ 199,314	\$ 13,872	\$ -	\$ 213,186	\$ -
<u>Business-type Activities</u>					
Michigan Drinking Water Revolving Loan due in annual amounts of \$40,000-52,340 plus interest at 2.5% through 2019.	\$ 557,340	\$ -	\$ 40,000	\$ 517,340	\$ 40,000
Sewage Disposal System Bonds, Series 2000, due in annual amounts of \$25,000-75,000 plus interest at 4.4-5.25% through 2020.	635,000	-	30,000	605,000	35,000
Water Supply System No. 1 Refunding Bonds, due in annual amounts of \$105,000-120,000 plus interest at 4.0-4.55% through 2013.	685,000	-	110,000	575,000	105,000
Compensated absences payable	64,275	19,033	-	83,308	-
Total business-type activities	\$ 1,941,615	\$ 19,033	\$ 180,000	\$ 1,780,648	\$ 180,000

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

Annual debt service requirements to maturity for all outstanding debt (excluding compensated absences payable) as of February 29, 2008 are as follows:

<i>Year Ended</i> <i>February 28,</i>	<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2009	\$ 180,000	\$ 66,643	\$ 246,643
2010	180,000	59,701	239,701
2011	205,000	52,523	257,523
2012	205,000	44,163	249,163
2013	215,000	35,615	250,615
2013-2017	520,000	94,877	614,877
2018-2020	<u>192,340</u>	<u>8,222</u>	<u>200,562</u>
	<u>\$ 1,697,340</u>	<u>\$ 361,744</u>	<u>\$ 2,059,084</u>

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	<i>Governmental</i> <i>Activities</i>	<i>Business-type</i> <i>Activities</i>	<i>Component</i> <i>Unit - DDA</i>
Receivables:			
Property taxes	\$ 75,208	\$ -	\$ -
Accounts	6,150	482,396	-
Notes receivable	563,033	-	47,422
Intergovernmental	<u>85,476</u>	<u>-</u>	<u>1,179</u>
Total receivables	<u>\$ 729,867</u>	<u>\$ 482,396</u>	<u>\$ 48,601</u>
Accounts payable and accrued expenses:			
Accounts payable	\$ 60,487	\$ 213,371	\$ 4,575
Accrued payroll and related liabilities	20,277	10,572	279
Intergovernmental	1,405	-	-
Customer deposits	-	65,710	-
Accrued interest payable	<u>-</u>	<u>25,799</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 82,169</u>	<u>\$ 315,452</u>	<u>\$ 4,854</u>

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE 10: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation claims and medical claims, and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general liability and property and crime liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Village maintains a deposit with the risk pool of \$75,362 to cover such claims.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the Village's competitive bargaining units and requires a contribution from the employees of between 3-5 percent. The Village is required to contribute at actuarially determined rates; the current rates ranged from 0.00-18.43 percent of eligible payroll based on the December 31, 2005 valuation. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.50 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC.

Annual Pension Costs – For the year ended February 29, 2008, the Village's annual pension cost of \$104,724 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases. Both (i) and (ii) include an inflation component of 4.5%. All are determined using techniques that smooth the effects of short-term volatility over a four year period.

VILLAGE OF PAW PAW

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

Three year trend information:

	<i>Fiscal Years Ended the last day of February</i>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Annual pension cost	\$ 104,724	\$ 108,580	\$ 88,127
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

NOTE 12: FUND EQUITY

Specific reservations on fund equity include:

Reserved for long-term advance – This reserve was created to indicate that portion of fund balance representing the long-term advance receivable.

Reserved for risk pool deposit – This reserve represents the deposit the Village maintains with the Michigan Municipal Risk Management Authority risk pool program to cover loss claims.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF PAW PAW

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended February 29, 2008

<i>Actuarial Valuation Date</i>	<i>12/31/07</i>	<i>12/31/06</i>	<i>12/31/05</i>
Actuarial Value of Assets	\$ 5,880,829	\$ 5,553,860	\$ 5,299,698
Actuarial Accrued Liability (AAL)	6,272,174	5,878,098	5,661,860
Unfunded AAL (UAAL)	391,345	324,238	362,162
Funded Ratio	94%	94%	94%
Covered Payroll	1,462,700	1,377,429	1,388,816
UAAL as a percentage of covered payroll	27%	24%	26%

VILLAGE OF PAW PAW

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>			<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>	<i>Actual</i>	
Revenues:				
Property taxes	\$ 887,650	\$ 969,650	\$ 968,976	\$ (674)
Licenses and permits	58,000	58,000	69,921	11,921
State grants	327,450	347,200	347,697	497
Contributions from other units	17,000	17,000	14,000	(3,000)
Charges for services	722,830	722,830	724,174	1,344
Fines and forfeits	17,500	29,250	26,764	(2,486)
Interest and rents	34,500	39,500	47,743	8,243
Other revenue	47,500	102,500	82,383	(20,117)
Total revenues	<u>2,112,430</u>	<u>2,285,930</u>	<u>2,281,658</u>	<u>(4,272)</u>
Expenditures:				
Current				
General government	260,590	249,500	245,217	(4,283)
Public safety	921,790	921,790	822,140	(99,650)
Public works	574,160	574,160	550,296	(23,864)
Community and economic development	41,910	56,500	47,457	(9,043)
Recreation and culture	203,500	225,000	216,258	(8,742)
Other	174,450	120,000	113,647	(6,353)
Capital outlay	<u>32,000</u>	<u>32,000</u>	<u>30,874</u>	<u>(1,126)</u>
Total expenditures	<u>2,208,400</u>	<u>2,178,950</u>	<u>2,025,889</u>	<u>(153,061)</u>
Excess (deficiency) of revenues over expenditures	<u>(95,970)</u>	<u>106,980</u>	<u>255,769</u>	<u>148,789</u>
Other financing sources (uses):				
Transfers to other funds	<u>(15,000)</u>	<u>(15,000)</u>	<u>(6,500)</u>	<u>8,500</u>
Total other financing sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(6,500)</u>	<u>8,500</u>
Net change in fund balance	(110,970)	91,980	249,269	157,289
Fund balance, beginning of year	<u>854,308</u>	<u>854,308</u>	<u>854,308</u>	<u>-</u>
Fund balance, end of year	<u>\$ 743,338</u>	<u>\$ 946,288</u>	<u>\$ 1,103,577</u>	<u>\$ 157,289</u>

VILLAGE OF PAW PAW

SPECIAL REVENUE FUND – REVOLVING LOAN FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under) Final Budget</i>
Revenues:				
Interest and rents	\$ 15,000	\$ 15,000	\$ 17,698	\$ 2,698
Loan repayments	100,000	100,000	86,646	(13,354)
Total revenues	115,000	115,000	104,344	(10,656)
Expenditures:				
Current				
General government	-	-	-	-
Total expenditures	175,325	308,700	301,360	(7,340)
Net change in fund balance	(60,325)	(193,700)	(197,016)	(3,316)
Fund balance, beginning of year	483,680	483,680	483,680	-
Fund balance, end of year	<u>\$ 423,355</u>	<u>\$ 289,980</u>	<u>\$ 286,664</u>	<u>\$ (3,316)</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 29, 2008

Current Taxes:

Property taxes	\$ 830,482
Trailer tax	457
Penalties and interest on taxes	4,740
Payment in lieu of taxes	<u>133,297</u>
	<u>968,976</u>

Licenses and permits:

Nonbusiness licenses and permits	41,686
CATV franchise fees	<u>28,235</u>
	<u>69,921</u>

State Grants:

Liquor license fees	4,893
State revenue sharing - sales tax	338,742
Police	<u>4,062</u>
	<u>347,697</u>

Contribution from other units:

DDA - administrative expense	<u>14,000</u>
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Charges for services:

Zoning fees	225
Other	129
Administrative charge to other funds	<u>723,820</u>
	<u>724,174</u>

Fines and forfeits:

Traffic and parking fines	1,003
Court cost reimbursements	<u>25,761</u>
	<u>26,764</u>

Interest and rents:

Interest	32,003
Rents	<u>15,740</u>
	<u>47,743</u>

Other Revenue:

Contributions and donations	57,578
Reimbursements	5,593
Loan repayments	18,874
Other	<u>338</u>
	<u>82,383</u>

Total revenues	<u>\$ 2,281,658</u>
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VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 29, 2008

General Government:

Governmental:

Personnel	\$ 96,869
Fringe benefits	35,438
Supplies	8,558
Contracted services	12,298
Telephone	5,287
Dues and memberships	2,585
Education and training	2,900
Printing and publications	1,095
Utilities	5,401
Repairs and maintenance	29,281
Equipment rental	161
Other	27,486
	<u>227,359</u>

Audit:

Contracted services	<u>11,185</u>
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Legal:

Contracted services	<u>6,673</u>
Total general government	<u>245,217</u>

Public Safety:

Law Enforcement:

Personnel	535,104
Fringe benefits	115,404
Supplies	7,703
Contracted services	10,957
Telephone	4,944
Dues and memberships	240
Education and training	3,311
Printing and publications	289
Utilities	2,825
Repairs and maintenance	3,848
Equipment rental	77,360
Other	1,405
	<u>763,390</u>

Fire:

Repairs and maintenance	<u>11,570</u>
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VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 29, 2008

Public Safety, continued:

Building Inspection:

Personnel	7,831
Fringe benefits	2,233
Contracted services	37,116
	<u>47,180</u>
 Total public safety	 <u>822,140</u>

Public Works:

Public Services:

Personnel	196,794
Fringe benefits	64,689
Supplies	18,936
Contracted services	24,718
Telephone	8,523
Dues and memberships	360
Education and training	974
Utilities	17,964
Repairs and maintenance	11,561
Equipment rental	140,772
Other	390
	<u>485,681</u>

Street Lighting:

Utilities	<u>64,615</u>
 Total public works	 <u>550,296</u>

Community and Economic Development:

Planning:

Personnel	21,292
Fringe benefits	11,374
Supplies	350
Contracted services	11,581
Dues and memberships	345
Conferences and workshops	1,200
Printing and publications	1,172
Other	143
	<u>47,457</u>

VILLAGE OF PAW PAW

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 29, 2008

Recreation and Culture:

Recreation and Parks:

Personnel	24,674
Fringe benefits	12,175
Supplies	2,763
Contracted services	161,763
Utilities	292
Repairs and maintenance	82
Equipment rental	13,695
Other	814
	<u>216,258</u>

Other:

Insurance	<u>113,647</u>
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Capital Outlay:

General government	3,433
Public safety	4,784
Public works	4,112
Recreation and culture	18,545
	<u>30,874</u>

Total expenditures	<u>2,025,889</u>
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Other Financing Uses:

Transfers to other funds	<u>6,500</u>
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Total expenditures and other financing uses	<u>\$ 2,032,389</u>
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VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

Year Ended February 29, 2008

	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Wine and Harvest Festival Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Assets:				
Cash and cash equivalents	\$ 227,379	\$ 334,389	\$ 19,026	\$ 580,794
Taxes receivable	8,380	13,107	-	21,487
Due from other governmental units	29,501	11,503	-	41,004
Due from other funds	<u>1,021</u>	<u>-</u>	<u>100</u>	<u>1,121</u>
Total assets	<u>\$ 266,281</u>	<u>\$ 358,999</u>	<u>\$ 19,126</u>	<u>\$ 644,406</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 384	\$ 767	\$ 87	\$ 1,238
Accrued expenses	550	968	-	1,518
Due to other governmental units	-	38	-	38
Due to other funds	<u>5,343</u>	<u>10,223</u>	<u>17,009</u>	<u>32,575</u>
Total liabilities	<u>6,277</u>	<u>11,996</u>	<u>17,096</u>	<u>35,369</u>
Fund balances:				
Unreserved:				
Special revenue funds	<u>260,004</u>	<u>347,003</u>	<u>2,030</u>	<u>609,037</u>
Total fund balances	<u>260,004</u>	<u>347,003</u>	<u>2,030</u>	<u>609,037</u>
Total liabilities and fund balances	<u>\$ 266,281</u>	<u>\$ 358,999</u>	<u>\$ 19,126</u>	<u>\$ 644,406</u>

VILLAGE OF PAW PAW

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Wine and Harvest Festival Fund</i>	<i>Total Nonmajor Governmental Funds</i>
Revenues:				
Property taxes	\$ 135,419	\$ 229,657	\$ -	\$ 365,076
State grants	168,293	70,140	-	238,433
Contributions from other units	19,755	30,899	-	50,654
Charges for services	-	-	15,850	15,850
Interest and rents	6,721	12,964	5,906	25,591
Other revenue	-	-	16,735	16,735
Total revenues	<u>330,188</u>	<u>343,660</u>	<u>38,491</u>	<u>712,339</u>
Expenditures:				
Current				
Public works	175,431	201,629	-	377,060
Recreation and culture	-	-	44,655	44,655
Loan payment to General Fund				
Principal	18,736	-	-	18,736
Interest and fees	138	-	-	138
Total expenditures	<u>194,305</u>	<u>201,629</u>	<u>44,655</u>	<u>440,589</u>
Excess (deficiency) of revenues over expenditures	<u>135,883</u>	<u>142,031</u>	<u>(6,164)</u>	<u>271,750</u>
Other financing sources (uses):				
Transfers from other funds	-	-	6,500	6,500
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>6,500</u>	<u>6,500</u>
Net change in fund balances	135,883	142,031	336	278,250
Fund balances, beginning of year	<u>124,121</u>	<u>204,972</u>	<u>1,694</u>	<u>330,787</u>
Fund balances, end of year	<u>\$ 260,004</u>	<u>\$ 347,003</u>	<u>\$ 2,030</u>	<u>\$ 609,037</u>

VILLAGE OF PAW PAW

COMPONENT UNIT

BALANCE SHEET

February 29, 2008

	<u><i>Downtown Development Authority</i></u>
Assets:	
Cash and cash equivalents	\$ 969,133
Taxes receivable	-
Notes receivable	47,422
Due from primary government	<u>1,179</u>
Total assets	<u><u>\$ 1,017,734</u></u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable	\$ 4,575
Accrued expenses	279
Due to primary government	-
Deferred revenue	<u>47,422</u>
Total liabilities	<u>52,276</u>
Fund balance:	
Unreserved	<u>965,458</u>
Total fund balance	<u>965,458</u>
Total liabilities and fund balance	<u><u>\$ 1,017,734</u></u>

RECONCILIATION OF FUND BALANCE TO NET ASSETS:

Fund balance for component unit	\$ 965,458
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Total net assets reported for the component unit in the statement of
of net assets is different because:

Capital assets used in the component unit are not financial resources
and therefore are not reported in the component unit fund statements.

Capital assets	71,202
Less accumulated depreciation	(4,902)

Deferred revenues reported in the governmental funds are recognized as
revenues for the governmental activities.

Notes	<u>47,422</u>
Net assets of component unit	<u><u>\$ 1,079,180</u></u>

VILLAGE OF PAW PAW

COMPONENT UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

Year Ended February 29, 2008

	<u><i>Downtown Development Authority</i></u>
Revenues:	
Property taxes	\$ 319,880
Interest and rents	24,971
Other revenue	<u>27,108</u>
Total revenues	<u>371,959</u>
Expenditures:	
Current	
Community and economic development	104,148
Capital outlay	<u>12,568</u>
Total expenditures	<u>116,716</u>
Net change in fund balance	255,243
Fund balance, beginning of year	<u>710,215</u>
Fund balance, end of year	<u><u>\$ 965,458</u></u>

RECONCILIATION OF NET CHANGE IN FUND BALANCE TO CHANGE IN NET ASSETS:

Net change in fund balance - component unit	\$ 255,243
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Total change in net assets reported for the component unit in the statement of activities is different because:

Component unit fund statements report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	12,568
Less depreciation expense	(2,636)

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue.

Notes	<u>(24,198)</u>
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Change in net assets of component unit	<u><u>\$ 240,977</u></u>
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VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 29, 2008

MICHIGAN DRINKING WATER REVOLVING LOAN

Issue dated September 28, 1998 in the amount of	\$	830,000
Less:		
Principal paid in prior years		(272,660)
Principal paid in current year		<u>(40,000)</u>
Balance payable at February 29, 2008	\$	<u>517,340</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2009	2.50%	\$ 6,438	\$ 5,937	\$ 40,000	\$ 52,375
2010	2.50%	5,938	5,437	40,000	51,375
2011	2.50%	5,438	4,937	40,000	50,375
2012	2.50%	4,938	4,375	45,000	54,313
2013	2.50%	4,375	3,750	50,000	58,125
2014	2.50%	3,750	3,125	50,000	56,875
2015	2.50%	3,125	2,500	50,000	55,625
2016	2.50%	2,500	1,875	50,000	54,375
2017	2.50%	1,875	1,250	50,000	53,125
2018	2.50%	1,250	625	50,000	51,875
2019	2.50%	<u>625</u>	<u>-</u>	<u>52,340</u>	<u>52,965</u>
		<u>\$ 40,252</u>	<u>\$ 33,811</u>	<u>\$ 517,340</u>	<u>\$ 591,403</u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 29, 2008

SEWAGE DISPOSAL SYSTEM BONDS, SERIES 2000

Issue dated January 1, 2001 in the amount of	\$	750,000
Less: Principal paid in prior years		(115,000)
Principal paid in current year		<u>(30,000)</u>
Balance payable at February 29, 2008	\$	<u>605,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Principal due April 1</i>	<i>Interest due October 1</i>	<i>Interest due October 1</i>	<i>Total Annual Requirement</i>
2009	4.50%	\$ 35,000	\$ 14,999	\$ 14,211	\$ 64,210
2010	4.55%	35,000	14,211	13,415	62,626
2011	4.60%	40,000	13,415	12,495	65,910
2012	4.70%	40,000	12,495	11,555	64,050
2013	4.80%	45,000	11,555	10,475	67,030
2014	4.90%	45,000	10,475	9,373	64,848
2015	5.00%	50,000	9,373	8,123	67,496
2016	5.05%	55,000	8,123	6,734	69,857
2017	5.10%	60,000	6,734	5,204	71,938
2018	5.15%	60,000	5,204	3,659	68,863
2019	5.20%	65,000	3,659	1,969	70,628
2020	5.25%	<u>75,000</u>	<u>1,969</u>	<u>-</u>	<u>76,969</u>
		<u>\$ 605,000</u>	<u>\$ 112,212</u>	<u>\$ 97,213</u>	<u>\$ 814,425</u>

VILLAGE OF PAW PAW

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

February 29, 2008

WATER SUPPLY SYSTEM NO. 1 REFUNDING BONDS

Issue dated February 13, 2001 in the amount of	\$	1,195,000
Less: Principal paid in prior years		(510,000)
Principal paid in current year		<u>(110,000)</u>
Balance payable at February 29, 2008	\$	<u>575,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due May 1</i>	<i>Interest due November 1</i>	<i>Principal due November 1</i>	<i>Total Annual Requirement</i>
2009	4.15%	\$ 12,529	\$ 12,529	\$ 105,000	\$ 130,058
2010	4.25%	10,350	10,350	105,000	125,700
2011	4.35%	8,119	8,119	125,000	141,238
2012	4.45%	5,400	5,400	120,000	130,800
2013	4.55%	<u>2,730</u>	<u>2,730</u>	<u>120,000</u>	<u>125,460</u>
		<u>\$ 39,128</u>	<u>\$ 39,128</u>	<u>\$ 575,000</u>	<u>\$ 653,256</u>



REQUIRED COMMUNICATION TO THE VILLAGE OF PAW PAW IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the Village Council
Village of Paw Paw

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Paw Paw for the year ended February 29, 2008, and have issued our report thereon dated August 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 9, 2006, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter. You have elected to not include the Management's Discussion & Analysis which is not required as part of the basic financial statement.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Paw Paw are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates may be particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Discussion With Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Village of Paw Paw as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Paw Paw's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

Deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above, follow:

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements. SAS No. 112 requires us to communicate with you about this.

Conditions: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the government has placed reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the government to perform these tasks internally.

Effect: As a result of this condition, the government lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the government to rely on its external auditors to recommend the necessary adjustments and preparation of the financial statements.

Other Audit Findings Or Issues

We have provided the Village with a separate memorandum concerning discussions we have had about a variety of bookkeeping related matters.

This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
August 15, 2008